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Dairy and Products Annual

Argentina - Dairy and Products Annual Report

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Report Highlights:

Post forecast Argentina's milk production for calendar year (CY) 2015 at 11.7 million tons, a three percent decrease from CY2014 USDA's estimates. Total exports of dairy products in CY2015 are forecast at 303,000 metric tons (MT). Argentina's dairy industry is seeking to capitalize on the opportunity to supply the Russian market in the aftermath of Russia's food import ban on the United States, the European Union, Australia and Canada as part of the diplomatic dispute over Ukraine. Cheese is the best positioned dairy product for the Russian market.

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Production:

Post forecasts Argentine milk production for calendar year (CY) 2015 to reach 11.7 million tons, a three percent decrease from USDA's CY2014 estimates. This forecast is basically based on normal weather conditions, and on the current excellent milk to feed ratio which is very favorable. Analysts project that, given these factors, the Argentine dairy sector will resume its long term slow but steady growth pattern, averaging three to four percent annually.

CY2014 milk production is estimated at 11.4 million tons, one percent decrease in milk output compared to CY2013 output. This is almost six percent lower than USDA official estimates for the year. The reason behind the decline is excessive rain and flooding in some areas during the fall and winter. Dairy operations in the central and eastern part of Buenos Aires province had severe problems with flooded pastures and difficult or inhibited access to the farms due to the terrible conditions of muddy roads. Production began to rebound in August and showed positive growth in September. However, Post estimates that during the peak production months (Oct–Dec) production will not rebound enough to compensate and that CY2014 total production numbers will be 11.4 million tons, four percent below CY2013 USDA's figures.

Farm gate prices have risen considerably in the last months, catching up with cost increases and improving the farmer's profitability. But CY 2012 and 2013 had left producers in debt that they are now repaying with their improved margins.

Current price per liter price is paid around AR\$ 3.15 -3.30 (US\$ 0.37 – 0.40 approx.) around 45 percent above CY 2013 levels. Even with this big increase, this price is slightly over inflation levels which has direct impact in production.

The average percentage of milk fat and protein content are estimated at 3.6 and 3.3 percent respectively.

The current Argentine dairy herd is estimated at 2.01 billion head – a slightly slower than USDA's official numbers for CY2013 - composed of 80 percent Holstein and 20 percent Jersey cows. The lack of expansion has to do with the strong repositioning of dairy cows. The average dairy farm in Argentina is increasing in land area, cow productivity and herd size, but there is also a significant group of smaller farms leaving the dairy business. Thus, milk production in Argentina is more and more being concentrated in the hands of medium to large producers who are efficient, use more technology and are intensifying their production schemes.

Argentina's milk production is based in the central and east-central regions of the country, known as the Pampas, which includes parts of Cordoba, Santa Fe, Buenos Aires, Entre Rios and La Pampa provinces. In these regions, dairy farming is pasture based and depends exclusively on rainfall, with no confinement of dairy herds. Most of these regions are also crop areas, so dairy competes with soybean, maize and wheat production. Sown pastures, typically alfalfa and rye grass among others are part of the crop rotation pattern, but also reflect the ratio of milk to grain prices. Such direct competition with crops makes milk production unusually sensitive to any change in the relative profitability of both activities.

In addition to sown pastures, other sources widely used for dietary cows' diet are corn silage and grain concentrates. The average dairy farm has good facilities, where cows are mechanically milked twice a day, with the milk passing directly into the cold storage tank which would be collected daily by the processing company.

Sanitary conditions

The National Service of Agricultural and Food Health and Quality (SENASA) has set as a priority the control of diseases and biosecurity. National records indicate that tuberculosis is not a problem on the majority of the farms, about 8000 of them have been officially confirmed as "free of tuberculosis". Argentina's dairy primary dairy production comes from herds free of brucellosis and tuberculosis, both diseases are under official SENASA's control and eradication programs.

Whole Milk Powder Production

CY2015 production is forecast at 282,000 MT, a three percent decrease from USDA's CY 2014 estimates. The industry's current drying capacity is approximately 15 million liters per day, running at full capacity during the spring.

Cheese production

Post forecasts CY2015 cheese production at 566,000 MT, a three percent decrease from CY2014 USDA's estimates. Cheese is the second most important dairy product of Argentina. Soft/fresh types (cremoso, saint paulin and mozzarella) dominate the cheese categories constituting 50 percent of the market. Semi soft varieties such as gouda and swiss type account for 38 percent of the market, followed by hard cheese (provolone and sardo) accounting for 12 percent of the market.

Consumption:

CY2015 domestic consumption of dairy products is forecast to only grow marginally. Per capita consumption is estimated at 211 liters per capita, with a small margin for growth. Despite domestic high inflation, consumption remains stable. Approximately 85 percent of the population is aware of the importance of a healthy, natural and balanced diet in which dairy and milk are seen as a critical component and the main source of calcium. According to a survey performed by the National Institute of Surveys and Statistics (INDEC), dairy represents 3.4 percent of total household expenses, and 8 percent of food expenses. Consumers have a high regard for dairy products because of the cultural belief that milk is the most suited food for children.

Cheese consumption is currently high (estimated at 12 kg per capita) and it is expected to grow only marginally. Over 90 percent of the cheese production is consumed domestically, and there is little room for further expansion.

Trade:

Exports

Post forecasts CY2015 dairy commodity exports to grow in line with the projected increase in fluid milk production. Approximately 25 percent of total milk output is projected to be exported, primarily in the form of whole milk powder (WMP) and cheese. Post estimates total exports for CY2015 at 303,000 MT, reaching about 107 markets. As the international prices for WMP declined, the shipments of cheese to Russia become the best option for many Argentine exporters.

In order to expand its exports, and compete with other players who have free trade agreements in place Argentina would have to achieve improved access to markets. This will require multilateral work at the WTO and in the Doha Round to negotiate better tariff rates, new agreements under the Mercosur to access preferential tariff rates, and government to government agreements to minimize the impact of restrictions and/or trade distortions.

CY2015: Because domestic consumption is relatively stable, virtually all the increase in milk production goes directly to the production of commodities and products for export. As the Russian market seems to be the best alternative, contacts forecast that cheese exports might rebound seven percent compared

to CY2014.

CY2014: Lower production during the first semester, as well as difficulties in getting the export permits, also had an impact on Argentine dairy exports. Total dairy exports fell six percent during the period of Jan – Aug compared to the same period in 2013.

However, cheese exports increased 22 percent in the same period, in large part due to the volumes purchased by Russia. Post estimates total dairy exports to rebound in the period Aug – December.

WMP exports

Argentina continues to be the third largest exporter of WMP. Exports for CY2015 are projected at 196,000 MT. During the period Jan – Aug 2014 the main markets were Algeria (32 percent), Venezuela (27 percent), and Brazil (13 percent). The same trend is expected to continue in CY2015. The importance of differential prices is evident in the export markets of Brazil and Venezuela. In the case of Brazil, due to the Mercosur preferential tariff rates applied. In the case of Venezuela due to the institutional purchases made from the government of that country. During the last couple of years, Argentina has become a bigger presence on the WMP world market, due to the greater volumes purchased by Venezuela. However, the recent decline in international prices will make exports of this commodity less appealing.

Nonfat Milk Powder exports

Nonfat dry milk exports for CY2015 are projected to slightly increase to 20 MT, a very small volume compared to WMP. Brazil, Algeria, Russia and China are expected to continue to be the largest markets.

Cheese exports

Post forecasts CY 2015 cheese exports at 55,000 MT. Cheese is the second most important dairy product exported. Argentina is seeking to capitalize on the opportunity to supply the Russian market after the country's announcement that is banning food imports from the United States, the European Union, Australia and Canada as part of the diplomatic dispute over Ukraine. The Russian market is mostly interested in Argentine cheese. Small Argentine companies, which were unable to export WMP due to the lack of infrastructure, are already shipping cheese to Russia. For the period Jan – Aug 2014, Russia was the main market for Argentine cheese (25 percent), followed by Brazil (15 percent), and Venezuela (13 percent). The varieties most exported continue to be mozzarella (39 percent) and gouda (21 percent).

Up until March 2012, Argentina had received a 6,800 MT tariff rate quota for cheeses shipped to the United States, but on March 26, 2012, of Argentina's trade benefits under

the Generalized System of Preferences (GSP) were suspended given Argentina's failure to abide by its bilateral investment treaty obligations. Argentina still has access to the quota every year, but outside the system of preferences, in some cases without profit given tariff increase from zero to 15 percent.

Butter exports

Butter exports for CY2015 are projected at the same level of USDA's CY2014 at 17 MT. Main markets are Russia (70 percent), Saudi Arabia (12 percent) and Brazil (2.7 percent). Post forecasts the same trend for CY 2015. As Russia is already the main market for this product, Post does not forecast a major increase in exports to that country.

Imports

Dairy imports are negligible, and especially now due to the strong import restriction system imposed by the government of Argentina (GOA). Post forecasts the same trend for CY2015. Most imports are caseinates and casein derivatives from Uruguay and the Netherlands. For further information on Argentine import restrictions please see GAIN report "Food Exporter Guide Argentina".

Policy:

The GOA does not have a specific policy to promote the dairy sector, and there is no specific entity which promotes and markets Argentine dairy products abroad. Many contacts believe that the biggest challenge for the GOA is to open new markets for exports, and in order to do this, the government needs to negotiate new agreements with potential importing countries that would provide preferential access conditions.

Resolution 344/2013: issued by the Ministry of Agriculture on September 1, 2013 sets the parameters for milk payment based on quality attributes, that is, solid content of fat and protein. Under the new scheme, 95 percent of the price corresponds to quality and hygiene, and the remaining five percent of the price is used for commercial bonuses (bonuses included in this five percent include a premium paid to the producer for growth of the farm, customer loyalty, sanitation, etc). The resolution generated opposition among different players in the sector. Most processors claim that companies have no margin to negotiate with just five percent left for that purpose, and that this margin was used in the past to compete with the "informal" industry. On the other hand, there are some producers and some farm organizations that believe that the new resolution will compensate high quality and high sanitary standards, and will provide incentive to producers to enhance their quality standards.

There are still retail price controls on basic products such as milk, butter and some soft cheeses. However, the government has allowed large dairy processors to increase prices, especially for those products not considered essential.

Export taxes were eliminated in 2009, but the dairy sector continues to keep a well supplied domestic market.

In September 2013 the GOA announced that the use of export permits (ROE) previously required for just a few products, are now mandatory for most of the dairy products. Industry sources expressed that this resolution aroused complaints from the industry as they understand that it only creates delays and makes it difficult to comply with international contracts. Exporters also report that the government slows down the certification of export permits when it feels that the local market is not sufficiently supplied or in an attempt to control domestic prices. This affects primarily exports of cheese and dry milk. Large dairy processors report that the controls on many products, combined with increasing production costs, are creating a significant problem.